



**Directorate of
Intelligence**

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China-Taiwan: Strategies for Reunification

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An Intelligence Assessment

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*EA 85-10089
May 1985*

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Key Judgments

*Information available
as of 15 April 1985
was used in this report.*

Beijing, over the past several months, has launched a propaganda campaign highlighting the Hong Kong accord as a model for reunification between China and Taiwan. We believe this is aimed more at the United States than Taiwan. Although Chinese leaders do not believe—in our view—that they can achieve reunification in the near future, they remain determined to erode US support for Taiwan and want to draw Washington into a more direct role in promoting negotiations.

As a result, we expect Beijing to press the United States for support by:

- Seeking US endorsement of the “One Country, Two Systems”¹ concept as it applies to Taiwan.
- Devoting increasing effort to lobbying members of Congress and senior officials whom it believes may favor a US role in the reunification of China and Taiwan.
- Demanding US support for the use of the “Taiwan, China” Olympic formula in the Asian Development Bank and other international organizations, which Taipei now opposes because it implies Taiwan’s subordination to the mainland.
- Continuing to call for more rapid reductions in arms sales to Taiwan.
- Eventually pressing Washington to act as a mediator and to exert pressure on Taiwan to negotiate.

To complement this tack, China is offering Taiwan some ostensibly generous terms for reunification, including continued Kuomintang control of the island and retention of its armed services. Beijing is also attempting to build bridges to Taipei through quiet contacts with ethnic Chinese intermediaries and increased indirect trade. At the same time, Beijing is trying to increase Taiwan’s international isolation by undermining its ties with Western Europe, Japan, the Middle East, and Latin America.

¹ First authoritatively articulated by Deng Xiaoping in 1983, the notion of “One Country, Two Systems” provides ideological justification for inclusion of the capitalist systems of Hong Kong and Taiwan in China’s economy. As enshrined in the State Constitution, Taiwan and Hong Kong will be permitted to exist as Special Administrative Regions, ostensibly with considerable authority to run their own affairs. Deng has kept the notion purposely vague, we believe, because it is primarily a device to demonstrate to the United States, overseas Chinese, and other influential parties, that China’s intentions toward Taiwan and Hong Kong are reasonable. The Chinese have never spelled out the length of time that the “One Country, Two Systems” formula would remain in effect, for instance, or the precise powers that it would confer to the territories subsumed under it.

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Several factors are driving Beijing's Taiwan policy. All of China's senior leaders, including Deng Xiaoping, want to complete the Chinese revolution and leave the reunification of Taiwan as a part of their legacy. Some leaders [] believe that negotiations must at least begin while President Chiang Ching-kuo and the mainland old guard are still in power on Taiwan if China is to have any chance of locking their successors into such talks and checking the growth of self-determination sentiment among the ethnic Taiwanese majority. [] Chinese leaders believe that only President Chiang has the political stature to commit the island to such talks.

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Taipei has adamantly rejected Beijing's initiatives and since late February 1984 has taken a harder line both toward China and China's relations with the United States. Taiwan, for instance, has pressed for greater status in relations with the United States and has criticized with increasing bitterness the growing US-Chinese military relationship. In addition, Taiwan has publicly rejected the use of the Olympic formula, ordered its overseas missions to insist that Taiwan be called "Republic of China," and has chosen to leave international organizations, such as Interpol, rather than stay under nomenclature crafted by Beijing.

We believe these policies reflect the growing influence of President Chiang's conservative advisers, especially Premier Yu Kuo-hua and Secretary General of the Presidential Office Shen Chang-huan. Shen, who now exercises a dominant influence over foreign policy, and other conservatives are increasingly concerned by the growing US-Chinese relationship, China's takeover of Hong Kong in 1997, China's growing economic and political ties with South Korea and Singapore—two of Taiwan's closest allies in East Asia—and other trends they regard as inimical to Taiwan's long-term interests.

Taiwan's admitted involvement in the murder of Henry Liu last October has placed Taiwan officials on the defensive for now. We expect Taiwan, however, to renew intensive lobbying efforts in Washington to secure greater status, increased arms sales—including a fighter aircraft—and to scuttle any US arms sales to China when the furor dies down.

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China-Taiwan: Strategies for Reunification

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Beijing's Taiwan Policy

Beijing's primary goal—articulated by the National People's Congress Standing Committee in 1979 and in other leadership statements since then—is to draw Taiwan into talks leading to a reunification agreement. Although the Chinese leadership has set this as a major goal for the 1980s, we believe it harbors no illusions about achieving a breakthrough soon. In the interim, Beijing will keep pressure on Taipei by sporadically reiterating and refining its proposals, by emphasizing the inevitability of reunification, and by campaigning to win the sympathies of the United States and of other influential parties, such as overseas Chinese.

A secondary, tactical goal is the creation of a growing web of political, economic, and cultural ties between China and Taiwan designed to break down the barriers Taipei has erected to a dialogue. The Chinese thus seek to build bridges to Taiwan through offers of mutual participation in international organizations and increased indirect trade. A corollary of this approach is Beijing's interest in creating the impression in the United States and elsewhere that the Kuomintang (KMT) is the only major impediment to the reunification that Chinese on both sides of the strait desire.

Paradoxically, Chinese leaders also want to ensure that Taiwan remains stable under the control of their old nemesis, the mainlander-dominated KMT, in part because the KMT shares with China a common belief in "One China." Indeed, we believe Beijing does not want to do anything that might strengthen the hand of Taiwanese forces favoring independence for the island. Chinese threats from time to time to use force to reunify the mainland and Taiwan probably are intended in part to intimidate such groups.

Factors Shaping Beijing's Taiwan Policy. In devising a policy toward Taiwan, we believe Chinese leaders must balance a number of conflicting interests and concerns. They have long recognized, for example, that there is no quick solution and that they are

constrained from pursuing reunification more aggressively because of their need for good relations with the United States and its allies—both as a strategic counterweight to the Soviet Union and to obtain help for China's modernization drive. As a part of the price for closer ties, Deng and other Chinese leaders have repeatedly indicated they favor settling the problem by peaceful means.

The Chinese, however, are unlikely to forswear the use of force completely. We believe Deng now and then will continue to raise that possibility to remind both Washington and Taipei that China's patience has limits. Indeed, there are, in our judgment, several factors driving Beijing to search for a way to induce Taiwan to begin negotiations over the next few years. For example, all of China's senior leaders, Deng included, want to complete the Chinese revolution and leave the reintegration of Taiwan as a part of their legacy. Some of them allege that time is running out for reaching that goal peacefully. These leaders are concerned about the influence of Taiwan independence groups operating in the United States, and believe a dialogue with Taipei must begin while President Chiang Ching-kuo is still alive if Beijing is to have any hope of locking his successors into such negotiations. Otherwise, we believe, they fear that the next generation of Taiwan leaders might push for self-determination—with US support. Beijing's sharp reaction to the Pell Resolution endorsing self-determination for Taiwan, which the US Senate Foreign Relations Committee passed in late 1983, reflects this concern.

Taiwan, moreover, could become a fractious domestic issue. Deng and his allies, therefore, want to create the illusion of making progress toward reunification. Above all, we believe they do not want to introduce an

Beijing's Proposal

China put forward its basic reunification proposal in a message to Taiwan from the Standing Committee of the National People's Congress in 1979 and slightly amplified it in Ye Jianying's nine points of 1981. Since then, Deng Xiaoping has sought to appear increasingly generous, announcing new elements in discussions with foreign visitors that culminated in his "One Country, Two Systems" formula in 1983.

Based on its earlier decision to acknowledge the Kuomintang (KMT) as de facto ruler of Taiwan, Beijing's proposals are aimed primarily at the mainland leadership of the KMT—although they offer incentives to ethnic Taiwanese as well. In exchange for Taiwan's recognition of its claim to sovereignty, the Chinese propose:

- *A national political role for senior KMT leaders. The Chinese have stated that Taiwan's President Chiang Ching-kuo would be given a senior position in Beijing, perhaps that of State Vice President or a Vice Chairman of the National People's Congress.*
- *Retention of Taiwan's army and intelligence services. Deng promised that Taiwan would be able to purchase weapons from abroad, but only if they were not used to threaten the mainland.*
- *Protection of foreign investment. China pledged to protect the sanctity of foreign investment now in Taiwan and to permit additional investment. China offered subsidies for Taiwan should Taiwan require them.*
- *Taiwanese investment in the mainland. Beijing has used the lure of investment profits to appeal to Taiwan's ethnic Taiwanese middle class, much as it encouraged Hong Kong businessmen to invest in Chinese enterprises.*
- *Political autonomy for Taiwan. Like Hong Kong, Taiwan would be administered as a Special Administrative Zone, per Article 31 of the new State Constitution. Beijing has pledged that the KMT could continue to govern the island, and that it would not station officials or troops there. The KMT could also retain control of Taiwan's judicial system, with the highest court of appeal remaining in Taipei.*

issue that critics, such as Politburo Standing Committee member Chen Yun or National People's Congress Standing Committee Chairman Peng Zhen, could use to weaken their authority and undermine their domestic reform program.

Beijing's Policy in Practice

At present, Chinese leaders are trying to capitalize on the Hong Kong accord to promote their reunification campaign. In his National Day speech last October, Deng drew particular attention to the similarities between the Hong Kong settlement and China's proposals for Taiwan. Moreover, Chinese officials in Hong Kong have publicly stated that China will try to use Taiwan's extensive financial and economic links with Hong Kong to draw it into China's economic and political sphere.

To build confidence in Beijing's promises—especially in the United States—Chinese leaders are publicly offering to hold discussions with Taiwan on an equal, party-to-party basis. In addition, they are trying to convince Taiwan's leadership—and to a lesser extent the predominantly ethnic-Taiwanese middle class on Taiwan—that China is stable, that its policies enjoy a broad and enduring base of support, and that these policies will in time lead to a convergence of the mainland's and island's economic systems.

Beijing also is stressing the common political heritage of the KMT and the Chinese Communist Party, including two previous periods of cooperation. China now:

- Extols KMT founder Sun Yatsen's contribution to the CCP and the KMT and celebrates the anniversary of the KMT's founding congress.
- Gives wide publicity to the election of ethnic Taiwanese to the National People's Congress and the revival of "democratic" organizations of former KMT officials, such as the Revolutionary Committee of the KMT.
- Appeals to the filial concerns of President Chiang and other Taiwan leaders by refurbishing the Chiang family's ancestral home in Zhejiang Province and inviting Chiang to bury his father's ashes there.

China, moreover, seeks to capitalize on the close proximity of Fujian Province and the ethnic similarity of Fujian's coastal people to Taiwan's indigenous population. Fujian publicly welcomes and provides shelter for shipwrecked Taiwan fishermen, offers preferential investment to Taiwanese businessmen in its Xiamen Special Economic Zone, and often serves as Beijing's point of contact with Taiwan. To further these measures, Fujian has set up a "Taiwan Work Office" to build economic ties with Taiwan.

China also is using indirect—and, to a lesser extent, direct—trade with Taiwan to break down existing barriers and make contact with the ethnic Taiwanese middle class. Indirect Chinese exports—almost all traditional herbal medicines, teas, or foodstuffs—have increased steadily since trade began in 1978 and probably exceeded \$100 million last year but are still less than a half percent of China's total exports. China indirectly imports more from Taiwan, but this trade has fluctuated markedly for economic reasons. It reached a high of \$383 million in 1981 but dropped to \$170 million in 1983 and climbed to \$141 million by the middle of last year. And, although reliable

figures are not yet available, two-way trade increased dramatically in the last half of 1984.

they claim direct two-way trade reached \$10 million in the first six months of last year. The direct trade is still only a fraction of overall indirect trade through Hong Kong, however. Direct trade is conducted both through Taiwan vessels calling at the Fujian ports of Quanzhou and Hui'an and by smugglers in the offshore islands. In addition, Taiwan sanctions the purchase of special items for the presidential office and others through a procurement office in Hong Kong and the offshore islands.

Isolating Taiwan. Meanwhile, China continues to try to strip the Taipei government of its last vestiges of international legitimacy. Although it has allowed Taiwan, for example, to rejoin some international organizations by using the Olympic formula,³ it has done so mainly to relegate Taiwan to the status of a provincial entity subordinate to Beijing. In the case of the Asian Development Bank, for instance, while the issue is still under debate in Beijing, China is now insisting it will join only if Taiwan accepts Beijing's nomenclature and a subordinate place in Beijing's voting group.

Beijing also attempts to demonstrate Taipei's subordinate position in international sporting events. Since 1983, Beijing has increasingly pressed for Taipei to participate without its national flag or its anthem and to march behind Beijing.

Beijing has also proposed changes in the Olympic formula that would lay greater emphasis on Taiwan's status as a province of China.

Beijing is continuing its campaign to undermine Taiwan's ties with the few countries that still have diplomatic relations. In Latin America, for instance, Beijing has offered trade incentives to some countries to break ties with Taiwan. In Western Europe, China is trying to use its growing economic leverage to undermine Taiwan's ties. Over the past two years, for example, Chinese leaders have paid several visits to European countries that have strong economic ties with Taiwan and held out the prospect of significant trade deals. The prospect of expanding trade ties with China was instrumental in the Netherlands' decision last year not to sell additional submarines to Taiwan.

The Perspective From Taipei

After overcoming the shock of US-Chinese normalization in 1979, Taipei began to exude a renewed sense of self-confidence—the result of its success in developing an extensive web of international relationships, albeit on an unofficial basis. It has been

³ The Olympic formula, agreed to by China and Taiwan under the auspices of the International Olympic Committee in 1979, stipulates that Taiwan may participate in the Olympics under the banner "Chinese, Taipei" and may not fly its own flag or play its national anthem. Taipei is also permitted to have a national Olympic committee but under the "Chinese, Taipei" rubric.

particularly successful in expanding economic ties with Western Europe, East Asia, and the Middle East, using the lure of investment and trade—even when Taiwan sustains a loss

This self-confidence was reflected for a time in 1982 and 1983 in Taipei's adoption of a more flexible attitude toward overtures from the mainland. Taipei allowed its citizens to travel to China if they did so quietly and accepted in practice Beijing's proposals for reducing tensions in the Taiwan Strait. Some very senior Taiwan officials, including President Chiang, even began to hint in public that reunification might be possible at some point.

Over the past year, however, Taiwan has reverted to a more rigid posture, recently reiterating its policy of "no contact, no negotiations" and rejecting Deng's "One Country, Two Systems" proposal.⁴ We believe several factors explain this shift. Probably the most critical is the growing influence of President Chiang's more conservative advisers since Premier Sun—a leading proponent of the more flexible policy—suffered a disabling stroke in February 1984. He has been replaced by the conservative Yu Kuo-hua. More important, former Foreign Minister Shen Changhuan has assumed the influential post of Secretary General of the Presidential Office. We believe Shen, a strong advocate of Taiwan insisting on official status in international organizations and in dealings with the United States, now exercises a dominant influence over foreign policy.

⁴ Taiwan believes that China's "One Country, Two Systems" proposal is not in fact a serious attempt on the part of the Chinese to approach Taiwan over reunification. Taipei recognizes—as does Beijing in our view—that entering into talks with China would in itself amount to tacit acquiescence to reunification on Beijing's terms. Further, Taipei believes that accepting the offer of talks would be widely viewed in Taiwan as a sellout of the ethnic Taiwanese majority and could provoke a severe reaction against the government. A proposal that Taipei would consider to be serious would, in Taipei's view, be proffered indirectly and privately.

Shen and other conservatives—in our view—are increasingly disturbed by trends they believe threaten Taiwan's vital political and economic interests. They fear that if China's economic reforms succeed, China will become a much more formidable political opponent and serious economic rival for overseas markets. They are also concerned that China's takeover of Hong Kong in 1997 will give Beijing greater leverage over Taipei. Taiwan now relies heavily on Hong Kong as a banking and communications center. [REDACTED]

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Of more immediate concern, we believe, are the growing economic and political ties in East Asia between China and some of Taiwan's oldest and closest allies, such as South Korea and Singapore. Taipei implicitly accused Seoul of currying favor with Beijing when South Korea recently returned a Chinese torpedo boat and its crew to China. And Premier Lee Kuan Yew clearly indicated to Taiwan leaders recently that Singapore's ties with China will be increasingly close. [REDACTED]

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But most disturbing to the conservatives, in our judgment, is the warming in US-Chinese relations and, especially, developing US-Chinese military ties. Indeed, the shift to a tougher line coincided with the US-Chinese arms talks in Washington in late February. The Foreign Minister and other senior Taiwan officials have recently been sharply critical of US willingness to sell arms to China. [REDACTED]

The growing influence of the conservatives is evident in several policy areas. Taiwan, for example, has publicly rejected the Olympic formula as the basis for its future participation not only in international sporting events but in other international activities as well. Last spring, for example, the Taiwan team walked out of the Eighth Asian Youth Basketball Championship hosted by Seoul when it was given a choice of playing as "Chinese, Taipei" or withdrawing. Last September, Taiwan authorities ordered their overseas missions to insist that Taiwan be referred to as the "Republic of China." Since then, Taipei has rejected Chinese offers to allow Taiwan to remain in international bodies, such as Interpol and the Asian Development Bank, as "Taiwan, China." [REDACTED]

Finally, according to Taiwan's official news service, Premier Yu called last June for an end to visits to China by Taiwan citizens and threatened not to issue future exit visas to those who had already gone there. Taiwan also announced an end to the unofficial exchange of mail last summer, although it still allows some tightly controlled government-monitored correspondence between Taiwan and China. [REDACTED]

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The abrupt ouster this February of KMT Secretary General Chiang Yen-shih, a moderate, is another sign of the conservatives' growing influence. His replacement by the conservative Ma Shu-li is certain to strengthen their control over both foreign policy and domestic affairs. [REDACTED]

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Implications for the United States

The United States is central to Taiwan's continued security and to its economic viability. Taiwan depends heavily on the United States for sophisticated arms and, in our view, will continue to do so for many years. It has not yet developed a sophisticated indigenous arms production capability and has seen its ties with Israel, Western Europe, and other suppliers diminish. Similarly, the United States effectively underwrites Taiwan's current rapid pace of exports through its nearly \$10 billion trade deficit and acts as a lender of last resort for Taiwan in the absence of IMF and other economic safeguards. [REDACTED]

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Beijing's recent decision to make public Deng's secret overture to Washington for help in resolving the Taiwan problem may foreshadow a significant shift in Chinese policy, in our view. If so, we believe the Chinese will increasingly press the United States to become more directly and actively involved in brokering a resolution to the problem. Initially, Beijing may only urge the United States to endorse Deng's "One Country, Two Systems" formula as a fair basis for negotiations. But ultimately we think Beijing wants Washington to act as a mediator to overcome Taiwan's refusal to negotiate. In the past, the Chinese have insisted the problem be left to China and Taiwan to work out on their own. Washington was urged only to do nothing that would encourage Taiwan's intransigence. [REDACTED]

We do not believe, however, that Beijing will revert to its confrontational, badgering tactics—unless it perceives the United States is seriously violating its commitments to a "One China" policy and the gradual reduction of US arms sales to Taiwan. Beijing seems to recognize it has little leverage with Washington on this matter at present, although we believe the Chinese are actively watching for the emergence of senior US officials who want the United States to play a role in reunification. Moreover, we believe the Chinese do not want the Taiwan issue to impede their growing economic and military relations with Washington. Indeed, they may be counting on the development of those ties over the longer run to help them erode support for Taiwan in Washington. [REDACTED]

Instead, the Chinese are likely, in our judgment, to devote increasing attention to cultivating members of the US Congress and other influential US groups that they believe can help them influence American policy toward Asia. At the same time, they will continue periodically to remind Washington that the Taiwan problem remains an "obstacle" to better relations and to look for opportunities to drive a wedge between Washington and Taipei. Recent Chinese efforts to enlist US support for their position on the question of Taiwan's continued membership in the Asian Development Bank is a good example. [REDACTED]

The exposure of the involvement of some of Taiwan's most senior intelligence officials in the murder of Henry Liu, a US citizen, last October, however, has again put Taipei on the defensive. Indeed, Taiwan officials probably will be preoccupied with limiting the damage to US-Taiwan relations for some time. [REDACTED]

We doubt, however, that President Chiang and his conservative advisers have given up on obtaining greater unofficial status. [REDACTED] the Taiwan Ministry of Foreign Affairs is planning to cut staff positions in the Coordination Council for North American Affairs (CCNAA) and may let the CCNAA Secretary General slot fall vacant next year to force US diplomats to deal more directly with the Foreign Ministry—hence lending it greater status. [REDACTED]

As the publicity over the Henry Liu murder begins to fade, moreover, we expect Taipei to begin to press once more for some of the symbols of greater unofficial status in Washington. In the meantime, we believe Taipei will use its influence to try to block arms sales to China, such as the F-8 avionics package, when it believes it can make a strong case against them as threatening Taiwan's security. [REDACTED]

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